

FISCAL NOTE

Bill #: HB0334

Title: Distribute portion of gambling revenue to counties for law enforcement

Primary Sponsor: Small-Eastman, V

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	(\$7,940,000)	(\$8,199,000)
Revenue:		
General Fund	(\$13,826,000)	(\$14,446,000)
Net Impact on General Fund Balance:	(\$5,886,000)	(\$6,247,000)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. Under current law, 100% of the proceeds of the video gambling tax provided for in 23-5-610, MCA, is distributed to the state general fund.
2. Beginning July 1, 2005 (FY 2006), this bill would provide for a direct distribution of 25% of the proceeds of the video gambling tax to county and city/town governments, to be used for law enforcement purposes only. The distributions would be made to either a county or a city/town based on the location of the video gambling machine.
3. It is assumed that the proposal applies to FY 2006 revenues under the state accounting system. Revenue due for the quarter ending June 30th 2005 would be 100% state general fund revenue.
4. Currently, the state provides payments to local governments (counties, consolidated city/county governments, and cities and towns) under the entitlement share program (HB124, 2001 legislative session). When the entitlement share program was passed, revenues from a wide variety of sources that had been going to local governments were instead deposited in the state general fund. Local governments were provided with a total payment based on the amount of these diverted revenues; that payment grows each year based on general growth of the economy.

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5. Prior to the entitlement share program, local governments had been receiving two-thirds of video gambling revenues; the remaining one-third was deposited in the state general fund. Although the entitlement share program diverted all video gambling revenues to the state general fund, entitlement share program payments today continue to provide local governments with a payment that includes the amount they had been receiving from this source.
6. Section 3 of this bill will increase revenues to local governments, and decrease revenues to the state general fund, in an amount equal to 25% of total video gambling proceeds.
7. To offset the impact to the state general fund, the bill amends 15-1-121, MCA. This section of law established the base year payments to local governments under the entitlement share program. The amendment to this section *reduces* the amount of video gambling revenue that had initially been provided to local governments in the base year entitlement share payment by 25%. Since local governments had been getting two-thirds of total video gambling revenues prior to the entitlement share payment program, a 25% reduction of this amount represents a reduction equal to *one-sixth* of total video gambling revenues. Because one-quarter of current video gambling revenues will accrue to county governments under this bill, whereas the entitlement share payments are being reduced by just one-sixth of video gambling payments, this bill will result in a net reduction in revenue to the state general fund.
8. Based on the initial base year entitlement share payment, and growth rates for the entitlement share payment program since FY 2002, local governments are estimated to receive \$31.762 million in entitlement share payments that represent video gambling revenue in FY 2006; and \$32.795 million in FY 2007. The current forecast of total video gambling revenue is \$55.304 million for FY 2006; and \$57.782 million in FY 2007. Under this bill, general fund entitlement share payments would be reduced by \$7.940 million (\$31.761 million X 25%), but general fund revenues would be reduced by \$13.826 million (\$55.304 million X 25%), for a net reduction in general fund revenues of \$5.886 million in FY 2006. General fund entitlement share payments would be reduced by \$8.199 million (\$32.795 million X 25%), but general fund revenues would be reduced by \$14.446 million (\$57.782 million X 25%), for a net reduction in general fund revenues of \$6.247 million in FY 2007. (These impacts occur before the potential general fund impacts discussed in the technical notes are taken into consideration.)
9. There are no impacts on Department of Revenue administrative costs from this bill.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Expenditures:</u>		
Transfers	(\$7,940,000)	(\$8,199,000)
<u>Funding:</u>		
General Fund	(\$7,940,000)	(\$8,199,000)
<u>Revenues:</u>		
General Fund (01)	\$(13,826,000)	\$(14,446,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(5,886,000)	\$(6,247,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

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Under this bill, revenues to local governments would increase by about \$6.25 million in FY 2008 and thereafter. The net impact on local governments will depend on the relative growth rates of the entitlement share program versus the growth rate in video gambling revenues.

LONG-RANGE IMPACTS:

Net revenues to the state general fund would be reduced by approximately \$6.25 million per year beginning in FY 2008. The net impact in future years will depend on the relative growth rates of the entitlement share program versus the growth rate in video gambling revenues.

TECHNICAL NOTES:

Department of Revenue

1. It is unclear how this bill would affect entitlement share payments. The bill could be interpreted two ways:
 - a. This bill offsets the net impact on the state general fund by amending section 15-1-121, MCA, which provides for the calculation of each local government's "base entitlement share". The sum of each local government's base entitlement share is the base year entitlement share pool. This bill amends this section of law by reducing the amount of video gambling revenue included in the *base year* entitlement share calculations by 25% of the amount of video gambling revenue originally included in the base year calculations. Amending the *base year* calculations will require the Department of Revenue to retroactively recalculate all of the initial base year payments, and all of the individual payments made to each local government in each year since the original calculation. Because the amendment *reduces* the amount of video gambling revenue included in the base year, this will result in a reduction in the amount of entitlement share payment to every local government that received video gambling revenues prior to the entitlement share payment for every year that this program has been in place. This will require the Department of Revenue to recalculate every entitlement share program payment since the inception of the program. It is unclear whether the department would be required to bill every local government for the net difference in payment that would have occurred had the original base been reduced by 25% of the video gambling revenues included in the original payment. Under this interpretation, local governments would have to pay the state back an estimated \$29.729 million. Since the interpretation is in question, the \$29.729 million is not included in the fiscal note impacts.
 - OR
 - b. The bill disregards any changes to the entitlement share pool that have occurred since 2001. Rather, the bill requires us to calculate the base entitlement share by omitting 25% of the video gambling taxes, deduct 2001 district court and public welfare program expenditures, to establish the entitlement share pool. The entitlement share pool would then be revised to account for the growth rate. The problem with this interpretation is that it will base the next entitlement share payment on 2001 dollars, not current dollars. Additionally, local governments would lose growth on their base entitlement amount from video gaming amounts removed.
2. The original entitlement share payment program clearly distinguished three groups of local governments entitled to the payments: county governments, consolidated city/county governments, and incorporated cities and towns. This bill does not provide for any distribution of 25% of video gaming revenues to, or mention at all, consolidated city/county governments.